

Perpetual Crypto Contracts



Perpetual contract

▴ A crypto derivative
without expiry

▴ First appearance on
Bitmex in 2016

▴ Follows spot market

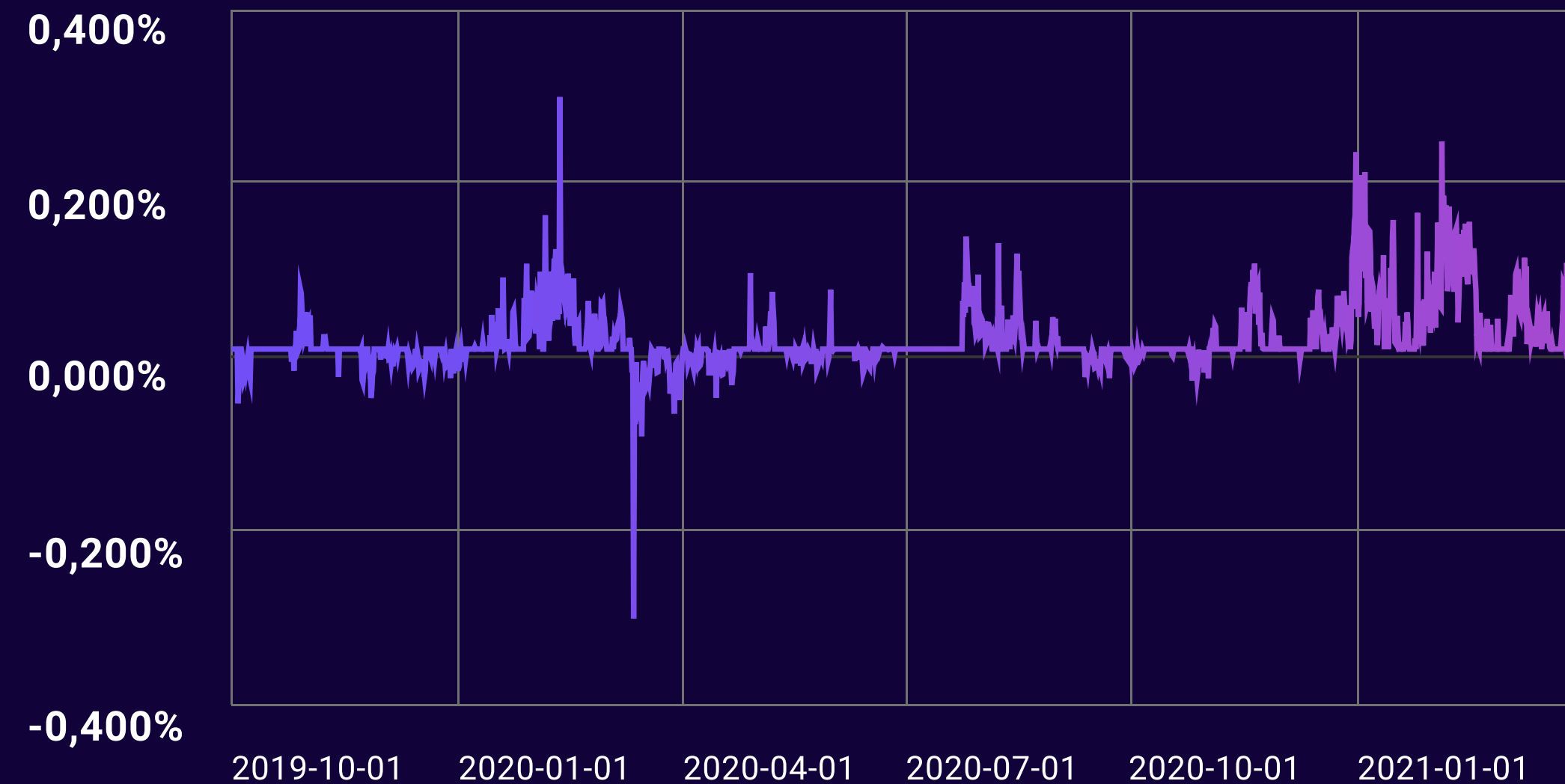
▴ Combines advantages of:

- **spot** (no expiry date, simple to use)
- **standard futures**
(margin trading, low commissions)

▴ Unique mechanics
(funding rate and mark price)

Funding rate

Historical funding rate (binance)



Funding rate mechanism

■ gives a clear financial motivation to move price of a perpetual contract closer to spot price

■ allows execution of trading strategies aimed specifically at making profit on funding rate payments

0.01% funding rate that is applied at small divergence from spot

22.3% earnings generated from funding YoY in 2020 (BTC)

in 90% cases rate is positive

8 every hours funding is paid

Flash crash on Kraken

Mark price

- During small divergence between spot and perpetual margin is based on the price of perpetual
- During large divergence spot market is used for margin
- Mechanism reduces liquidity risk, helps avoid cases of unjustified liquidation of a position



Comparison with CFD

Typical perpetual

- Funding is exchanged every 8 hours.

Can be both source of income and loss

- **Convergence to spot market is achieved by funding and mark price.**

Yet historically diverged from spot more than 1,5% at times

CFD

- Swap rate is paid if position is rolled over.

Almost always is negative for a trader

- **Convergence to spot is not an issue**

(directly linked to spot/futures market)

High liquidity, small spread (during calm times)



Questions?